

**STATE OF ILLINOIS  
ILLINOIS COMMERCE COMMISSION**

**Central Illinois Light Company d/b/a Ameren  
CILCO, Central Illinois Public Service Company  
d/b/a Ameren CIPS, Illinois Power Company  
d/b/a AmerenIP**

**Proposed general increase in Ameren CILCO,  
Ameren CIPS and Ameren IP's electric DS rates  
and Ameren CIPS and Ameren IP's gas delivery  
rates, and Ameren CILCO's proposed decrease to  
gas delivery rates**

**No. 07-0585 et. al.**

**AARP Ex. 2.0**

**PREFILED  
REBUTTAL TESTIMONY OF  
RALPH C. SMITH  
ON BEHALF OF AARP**

**MAY 14, 2008**



**AMEREN CILCO, AMEREN CIPS, AMEREN IP**

**PREFILED REBUTTAL TESTIMONY OF  
RALPH C. SMITH**

**I. INTRODUCTION**

**Q. Please state your name and business address.**

**A. Ralph C. Smith, 15728 Farmington Road, Livonia, Michigan 48154.**

**Q. Are you the same Ralph C. Smith who previously submitted direct prefiled testimony in these proceedings?**

**A. Yes, I am.**

**Q. On whose behalf are you appearing?**

**A. I am testifying on behalf of AARP.**

**Q. What issues will you be addressing in your rebuttal testimony?**

1 A. My direct testimony discussed the Ameren Utilities proposal for Rider QIP, Rider  
2 UBBA, and Rider UBPA and recommends that these proposed riders be rejected.  
3 The Ameren Illinois Utilities (“Ameren”) have withdrawn their request for  
4 approval of Riders UBBA and UBPA.<sup>1</sup> My rebuttal testimony addresses  
5 Ameren’s revised proposal for Rider QIP.

6  
7 **II. RIDER QIP - Qualifying Infrastructure Plant (Electric)**

8 **Q. In their rebuttal testimony, how has Ameren proposed to modify Rider QIP?**

9 A. As described in Ameren Ex. 18.0 (Rev.), at page 6<sup>2</sup>, Ameren proposes to change  
10 the definition of Rider QIP projects to include only those associated with system  
11 modernization or service reliability enhancements. Further, before any project  
12 costs can be recovered through Rider QIP, Ameren will file a cost-benefit analysis.  
13 Ameren proposes to make such filings on or before April 1 of each applicable  
14 calendar year, which Ameren claims will allow adequate time for Commission

---

<sup>1</sup> See, e.g., Ameren Ex. 18.0 (Rev.), rebuttal testimony of Craig D. Nelson at page 5, lines 69-71: “I am advising the Commission, Staff and the parties that the Ameren Illinois Utilities are withdrawing their request for approval of Riders UBA/UBBA/UBPA.”

<sup>2</sup> Rebuttal Testimony of Craig D. Nelson. A similar listing of Ameren proposed modifications to its proposed Rider QIP is presented at Ameren Ex. 25.0, rebuttal testimony of Wilbon L. Cooper, page 9:190-199.

1 approval prior to the subsequent January 1 effective date for approved QIP  
2 charges. Ameren also proposes to pay a combined fee of \$100,000 for their  
3 annual filing to mitigate the impact on the Commission's resources. Ameren also  
4 commits to filing an annual rate of return report with each Rider QIP filing to the  
5 extent that the subject costs are being recovered through the rider. Finally,  
6 Ameren proposes that Rider QIP can stand as a pilot program through and  
7 including December 31, 2012. Thereafter, Ameren would need to re-file Rider  
8 QIP or some variation of the rider if it sought to continue to recover costs in such  
9 a manner. All costs recovered by Ameren through the rider would be subject to a  
10 later prudence review.

11  
12 **Q. Are these modifications by Ameren an improvement over what the utility**  
13 **had originally filed as its Rider QIP proposal?**

14 A. Yes. The modifications by Ameren do represent an improvement over what the  
15 utility originally filed as its Rider QIP proposal. In particular, Ameren's  
16 modifications appear to address some of the concerns raised by witnesses for the  
17 Commission Staff.

1 **Q. Should Ameren's modified Rider QIP proposal be adopted?**

2 A. No. While not quite as bad as Ameren's originally proposed Rider QIP, the  
3 modified Rider QIP proposed by Ameren in its rebuttal testimony continues to  
4 suffer from many of the same flaws and concerns as did Ameren's original  
5 proposal, and for such reasons should be rejected.

6  
7 **Q. Would the Ameren Utilities' proposed Rider QIP result in additional rate**  
8 **increases beyond the rates approved in the current Ameren rate case?**

9 A. Yes. As proposed by the Ameren Utilities, Rider QIP would produce an additional  
10 charge in a separate line item on each retail customer's bill for a QIP Adjustment.  
11 This additional charge would thus result in additional subsequent increases to  
12 customer rates without the benefit of a complete review of the Ameren Utilities'  
13 operations and without reflecting other offsetting adjustments that could decrease  
14 the revenue requirement.

15  
16 **Q. Should Ameren's proposed Rider QIP be adopted?**

17 A. No. For several reasons, including the following, the Ameren Utilities proposed  
18 Rider QIP should be rejected:

1 1) It would inappropriately shift responsibility and risk of capital investment  
2 between rate cases away from shareholders and onto ratepayers.

3 2) It could remove or reduce incentives to prudently control the cost of plant  
4 additions.

5 3) Capital additions to improve the distribution system are not similar to fuel cost  
6 or generation supply costs.

7 4) It would encumber ratepayers with additional revenue requirements in the future  
8 for distribution system capital additions between rate cases without capturing  
9 offsetting benefits.

10 5) It is a distortion of the test year relationships.

11 6) It is not beneficial to ratepayers.

12 7) It is unnecessary.

13  
14 **Q. Has Ameren suggested that Rider QIP could accommodate projects of**  
15 **particular interest to regulators and to the public such as “smart grid”**  
16 **technology?**

1 A. Yes. Ameren witness Nelson suggests at page 14 of his rebuttal testimony that  
2 customers could benefit by virtue of the availability of smart grid technology. He  
3 states that under Rider QIP, the utility would not have to wait until a full rate case  
4 in order to present the smart grid to the Commission. Consequently, under Rider  
5 QIP, Ameren could begin the process of implementing smart grid technology and  
6 recover the associated costs through the rider.<sup>3</sup>

7  
8 **Q. Have the Ameren Utilities quantified the benefits to customers of the**  
9 **projects, such as “smart grid” that it identifies as one type of project it would**  
10 **like to include in Rider QIP?**

11 A. Apparently, not. Ameren’s proposal appears to be to get Rider QIP implemented,  
12 then to present cost-benefit analyses for smart grid and other projects at a later  
13 date.

14  
15 **Q. Is it necessary for a utility to have a special rate rider, such as Rider QIP, in**  
16 **order to begin investing in and testing smart grid projects?**

---

<sup>3</sup> Ameren Ex. 18.0 (Rev.), lines 286-291.

1 A. No. Pre-approval of utility investments, for smart grid or other modernization  
2 projects is unnecessary.

3  
4 **Q. Are any other electric utilities implementing Smart Grid projects on an**  
5 **experimental basis without seeking advanced regulatory approval to charge**  
6 **the costs incurred to ratepayers?**

7 A. Yes. As an example, Xcel Energy has recently announced its plans to implement  
8 an advanced, smart grid system in Boulder, CO.<sup>4</sup> Having established a  
9 collaborative effort with other firms and leveraging other sources including  
10 governmental grants, Xcel anticipates funding only a portion of the smart grid  
11 project itself. Additionally, as reported recently in the Wall Street Journal, Xcel is  
12 not seeking permission from regulators to recover its costs in advance, but will  
13 wait until it has assessed and proven the benefits.<sup>5</sup>

14  
15 **Q. How does that compare with Ameren's approach?**

---

<sup>4</sup> See AARP Ex. 2.1, which provides a copy of Xcel's 3-12-08 announcement.

<sup>5</sup> See AARP Ex. 2.2, which reproduces a 3-13-08 Wall Street Journal article, "Utility Gives Power to the People."

1 A. The approach advanced by Xcel, where the utility is assuming the initial risks of  
2 installing smart grid technology and evaluating whether it is producing benefits,  
3 stands in stark contrast with Ameren's approach. Ameren's approach, which  
4 attempts to shift the risks of deploying smart grid technology away from its  
5 investors and onto its ratepayers, should be rejected. If Ameren wants to be a  
6 pioneer in testing smart grid technologies, perhaps it should take an approach more  
7 like the one that Xcel is using, i.e., that maintains the initial risk with utility  
8 shareholders and collaborators, and does not shift risk onto ratepayers.

9  
10 **Q. The Commission's recent decision in the North Shore Gas Co. and Peoples**  
11 **Gas Light and Coke Co. rate case ("Peoples Gas Decision"), ICC Docket Nos.**  
12 **07-0241/07-0242, entered February 5, 2008, at page 162 stated that: "unless**  
13 **the proponents of the modernization initiatives provide a more compelling**  
14 **rationale in terms of identifying and quantifying reduced system costs and**  
15 **increased customer benefits, we will never be persuaded that modernization**  
16 **is in the best interest of the ratepayers." Has Ameren presented a compelling**  
17 **rationale that its Rider QIP is in the best interests of ratepayers?**

18 A. No. In addition to the other noted concerns, Rider QIP as proposed by Ameren  
19 could encumber ratepayers with additional revenue requirements annually into the

1 future for distribution system capital additions between rate cases without  
2 capturing offsetting benefits.

3  
4 **Q. Various Ameren witnesses suggest that annual proceedings would enable the**  
5 **review of QIP includible projects.<sup>6</sup> Does AARP anticipate being able to**  
6 **participate in such annual reviews?**

7 A. No. From discussions with AARP representatives, it appears unlikely that AARP  
8 would have funding for legal and consultant participation in annual Rider SMP  
9 reviews; thus, the AARP members' rates would be subject to increasing annually,  
10 via Rider QIP, but, as a practical matter, by deferring the decisions and review of  
11 QIP projects into separate proceedings, this is likely to eliminate active  
12 participation by AARP on behalf of its members. Consequently, AARP would  
13 prefer to see Ameren's capital projects continue to be addressed in the context of  
14 general rate cases, and not be addressed in a separate rider that appears likely to  
15 produce a series of additional annual rate increases for its members in Ameren's  
16 service territory.

---

<sup>6</sup> See, e.g., Ameren Ex. 18.0 (Rev) at page 6-7; Ameren even proposes to "pay a combined fee of \$100,000 for their annual filing" in order "to mitigate the impact on the Commission's resources." Id at 6:96-97.

1

2 **Q. Please summarize your conclusion regarding whether Ameren's modified**  
3 **Rider QIP should be adopted.**

4 A. Ameren's proposed Rider QIP represents an unusual, unnecessary, and one-sided  
5 "single issue" ratemaking proposal that inappropriately distorts the ratemaking  
6 calculus and should therefore be rejected.

7

8 **Q. Does that conclude your prefiled rebuttal testimony?**

9 A. Yes.